An Roinn Caiteachais
Phoiblí agus Athchóirithe
Department of Public
Expenditure and Reform

# Public Spending Code

## A Guide to Evaluating, Planning and Managing Current Expenditure

www.gov.ie/en/publication/public-spending-code/

July 2012

# Document Update Schedule

| Date | Content Updated | Section |
|---|---|---|
| September 2019 | Document updated to reflect publication of new Capital appraisal guidelines, revision of terminology for Sponsoring Agency & Approving Authority and separate publications of all other aspects of the PSC. | |
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# Contents

# 1 Introduction

The Public Spending Code (PSC) imposes obligations, at all stages of the project/programme lifecycle on organisations that spend public money. These obligations apply to the **Sponsoring Agencies** (bodies with primary responsibility for evaluating, planning and managing public investment projects/programmes) and **Approving Authorities** (bodies funding projects/programmes, usually Government Departments). The Approving Authority/Accountable Person is always the relevant Accounting Officer for Voted expenditure.

## 1.1 Differentiation between Current and Capital Expenditure

A differentiation is made between capital and current spending in accounting for public expenditure. Capital spending generally involves the creation of an asset where benefits accrue to the public over time e.g. a road, a rail line, a school or a hospital. Public funds are allocated to time-bound programmes where substantial once-off costs are incurred in earlier time periods with investment on land acquisition, construction materials and human capital. The targeted benefits usually arise in future time periods once initial investment is completed.

Current expenditure involves day to day expenditure and typically includes spending on:

- Salaries of public servants involved in delivering public services.
- Non-pay costs such as materials (drugs, teaching materials etc.) and administrative overheads as well as other commercially procured products and services.
- Income supports for targeted groups.
- Grant payments to achieve specific economic and/or social objectives.
- Payments for services carried out by professionals (e.g. training etc.) or other business sectors.

The cost profile for current spending proposals also tends to be more evenly distributed over time. In some cases, the benefits of current expenditure materialise directly as expenditure is incurred (e.g. income supports such as social protection schemes) but in other cases, positive outcomes arise over longer time horizons (e.g. early childhood intervention schemes).

It should be noted that programmes often have both current and capital characteristics. In addition, capital expenditure programmes generally include current costs such as operating and maintenance costs which are subject to the same appraisal requirements as the upfront investment costs. The majority of the general provisions in the Public Spending Code are equally applicable to current and capital expenditure.

## 1.2 Scope of this Guidance

This guidance sets out the *ex ante* requirements before new Current expenditure programmes are undertaken by the Sponsoring Agency or approved by the Approving Authority, or before extensions to existing current expenditure programmes are approved.

The obligations apply to new current spending proposals involving total expenditure of at least €20m over the proposed duration of the programme and a minimum annual expenditure of €5m.

Critical success factors for best practice in appraising current expenditure are outlined and a sample business case is included in the appendices.

All Government Departments and Public bodies and all bodies in receipt of public funding must comply, as appropriate, with the relevant requirements of the Public Spending Code. In the case of State Companies, the Board of each must satisfy itself annually that the Company is in full compliance with the Public Spending Code.

Nothing in the Public Spending Code should be taken as precluding Government or Ministers, under the delegated sanction arrangements set down by the Minister for Public Expenditure and Reform, from deciding to approve projects and programmes independent of the detailed application of the Public Spending Code. Such decisions still require Departments to ensure that best practice is adhered to as regards public financial procedures generally, in terms of ensuring that necessary terms and conditions are applied to secure full accountability and transparency for the funds concerned.

For *ex ante* guidance in respect of capital expenditure please see Public Spending Code: *A Guide to Evaluating, Planning and Managing Public Investment* available here.

# 2 Ex Ante Appraisal of new Current Expenditure Programmes

## 2.1 Appraisal Obligations

New programmes costing between €0.5m and €5m should be subject to a single appraisal incorporating elements of a preliminary and detailed appraisal. The scale of appraisal should be commensurate with the level of expenditure proposed.

A Multi Criteria Analysis should be carried out for new current expenditure proposals between €5m and €20m.

### Appraisal – Before money is spent – applies to new current spending

| Level of spend | Type of appraisal | Preliminary appraisal required?* | Send to Vote in DPER for review |
|---|---|---|---|
| Less than €0.5m | Simple assessment | No | No |
| €0.5m - €5m | Single appraisal | No | No |
| €5m - €20m | Multi-criteria analysis | **Yes** | No |
| Over €20m | Cost-benefit Analysis /<br>Cost-effectiveness analysis | **Yes** | **Yes**<br>**prior to the Approving Authority granting the Approval in Principle** |
| >€100m | Cost-benefit Analysis /<br>Cost-effectiveness analysis | **Yes** | **Yes**<br>**Government is the Approving Authority** |

* Preliminary appraisal: does a sufficient case exists for considering a proposal in more depth? Recommends whether or not to proceed to detailed appraisal stage (can be a costly exercise).

For new current spending proposals involving total expenditure of at least €20m over the proposed duration of the programme and a minimum annual expenditure of €5m a detailed Business Case incorporating a financial and economic appraisal is required and should be submitted for consideration to the relevant Vote section in D/PER.

The *ex ante* obligations for current expenditure programmes of at least €20m over the proposed duration of the programme and a minimum annual expenditure of €5m are:

(a) Preparation of a detailed Business Case incorporating a financial and economic appraisal for consideration by the relevant vote section of Department of Public Expenditure & Reform.

(b) Resubmission of Business Cases in order to address any issues identified by D/PER.

(c) Provision for a 'sunset clause', after which the expenditure scheme will be reviewed and discontinued unless it can be demonstrated to meet VFM criteria.

(d) Fixed cash limits for demand-led schemes.

(e) Pilot implementation of new proposals required before final approval, where feasible.

(f) Evaluation-proofing" of all Business Cases and related Memoranda for Government.

In particular these current appraisal provisions apply to:

(i) New grant/subsidy schemes.

(ii) Extension, renewal or re-orientation of existing programmes/schemes.

(iii) New delivery mechanisms for existing services.

(iv) New public services.

(v) New State bodies or amalgamations of State Bodies.

(vi) Measures deriving from broad cross sectoral or framework policy initiatives.

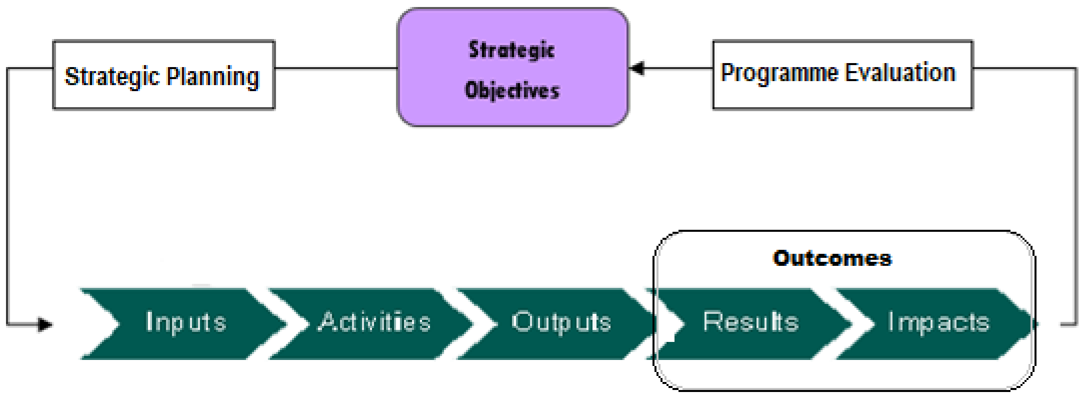
This document also sets out some items of good practice to ensure appraisal of current expenditure is robust and an overview of required content for a Business Case. Additional guidance will be developed in line with the evolving nature of the Public Spending Code.

These appraisal rules have been designed to address, in particular, a number of shortcomings that can commonly arise in the case of new current spending proposals. These include:

- Poor objective setting.
- Poor appraisal and planning.
- Inadequate estimation of demand and take-up by clients.
- Underestimation of the full costs of implementation.
- Lack of sufficient piloting and testing.
- Inadequate risk assessment.
- Little effort made to design appropriate management information arrangements e.g. data collection streams to support ongoing monitoring and review.

## 2.2 Programme Logic Model

Each programme or project is mapped to a Programme Logic Model and as such the principles of a Programme Logic Model (PLM), a standard evaluation tool, are applied. A PLM defines the objectives, inputs, activities, outputs and impacts of a process into a coherent framework and facilitates best practice evaluation. PLMs are standard practice in Irish evaluation and are utilised as a means of distilling information.




| | |
|---|---|
| **Inputs** | There are many inputs to programmes – physical inputs like buildings and equipment, data inputs like information flows, human inputs (grades of staff) and systems inputs like procedures. The financial input is the budget made available to the programme. Inputs are sometimes referred to as resources. |
| **Activities** | Activities, also called processes, are the actions that transform inputs into outputs. Activities are collections of tasks and work-steps performed to produce the outputs of a programme. |
| **Outputs** | The outputs are what are produced by a programme. They may be goods or services. |
| **Results** | The results are the effects of the outputs on the targeted beneficiaries in the immediate or short term. Results can be positive or negative. |
| **Impacts** | Impacts are the wider effects of the programme, from a sectoral or national perspective, in the medium to long term. They include the medium to long term effects on the targeted beneficiaries. |

## 2.3 General Considerations

Analysts carrying out current expenditure appraisals will generally be required to devote more attention to the following issues:

- Costing staff[1] time including pay overheads such as employers PRSI and pensions (usually existing internal Departmental/agency staff or new staff).
- Difficult to measure personal and programme outcomes and wider effectiveness indicators.
- Administrative costs of services e.g. management costs, non pay costs such as IT.
- Costing different methods of delivery including external sourcing.

## 2.4 Sector Specific Considerations

It is beyond the scope of this document to set out all the detailed current expenditure appraisal issues for different programmes/schemes across different sectors. The appraisal requirements can vary significantly from area to area, and the precise approach often needs to be customised to suit the type of spending under consideration.

It is the responsibility of each Government Department to ensure that Departments and Agencies draw up their own sector specific procedures for management and appraisal of current programmes/schemes. Proposed guidance may be submitted to DPER for consultation purposes. The advice of DPER can be sought at the outset of the current appraisal process to discuss best practice. In particular, it may be difficult to quantify and monetise outcomes. Targeted outcomes may be influenced by many causal factors and isolating the specific impacts of one causal factor can be a technical and complex task, particularly if the quantum of programme expenditure is small relative to the overall scale of other expenditure interventions in the policy area.

## 2.5 Scale of Appraisal

Every spending proposal should be appraised carefully. However, the resources spent on appraisal should be commensurate with the cost of proposals and with the degree of complexity of the issues involved. Small and routine projects should be appraised with a readily applicable methodology which is used consistently and which reflects the principles set out in this document.

[1] Public Spending Code: Central Technical References and Economic Appraisal Parameters, July 2019, Section 2, Staff Costs available here.

Simple appraisals involving expenditure of less than €500k may be completed within a matter of days. The appraisal of complex projects involving expenditure of more than €20m, which will involve a Cost Benefit Analysis, may take a number of months.

(i) A simple assessment will be carried out for minor projects with an estimated cost below €0.5 million, such as projects involving minor refurbishment works, fit outs etc.

(ii) Projects costing between €0.5 million and €5 million should be subject to a single appraisal incorporating elements of a preliminary and detailed appraisal.

(iii) A Multi Criteria Analysis (MCA) should be carried out at minimum for projects between €5 million and €20 million.

(iv) Projects over €20 million should be subjected to a Cost Benefit Analysis (CBA) or Cost Effectiveness Analysis (CEA). For current expenditure proposals expected to incur over €20m (with an annual spend of at least €5m) an economic appraisal should be submitted to the relevant Vote Section in Department of Public Expenditure and Reform.

(v) Programmes with an annual value in excess of €30 million and of 5 years or more duration to be subject to prior and mid-term evaluation at the beginning and mid point of each 5 year cycle or as may be agreed with the Department of Public Expenditure & Reform. Programme Evaluation should consider five key questions:-

1. **Rationale** -What is the justification or rationale for the policies underpinning the programme? What is the underlying market failure justification for Government intervention?

2. **Relevance** – What are the implications for the programme of changes in the wider socio-economic environment and in the context of overall Government policy?

3. **Effectiveness** – Is the programme meeting its financial and physical objectives?

4. **Efficiency** – Could more be achieved for the resources invested?

5. **Impact** – What socio-economic changes can be attributed to the programme. Most projects will be considered in the context of a sponsoring agency's business plan or a multi-annual investment programme. The Approving Authority should ensure that there is adequate consultation between sponsoring agencies, relevant Departments and public bodies having functional responsibilities in the sector or cross-sectoral responsibilities.

**Cost-Benefit or Cost-Effectiveness Analysis?**

There are two basic forms of economic analysis, one of which should be applied in the appraisal of each non-commercial investment proposal valued over €20m.

**Cost-Benefit Analysis**

The general principle of cost-benefit analysis (CBA) is to assess whether or not the social and economic benefits associated with a project are greater than its social and economic costs.

**Cost-Effectiveness Analysis**

Cost-effectiveness analysis (CEA) compares the costs of different ways of achieving a particular objective. A choice can then be made as to which of these options (which all achieve the same or similar ends) is preferable. Cost-benefit and Cost-effectiveness analysis are very similar. Ideally, cost-benefit analysis would always be undertaken. However, there are situations where significant costs or benefits associated with a project cannot be quantified or valued, and where this occurs cost effectiveness analysis may have to be relied on. CEA is employed to determine the least cost way of determining the project objective. Whether undertaking cost-benefit or cost-effectiveness analysis, a number of important considerations arise:-

- There may be significant costs or benefits which do not affect the Sponsoring Agency but which are important to other persons or agencies or to society in general. These are usually called ‘externalities’ (i.e. they are external to the sponsor’s direct concerns).
- There may be no market prices available for evaluating some costs or benefits associated with project options as they may not be traded items.
- In some cases, though resources consumed and outputs produced may be traded, the prices may not reflect the real value to society of those resources or outputs.

# 3 Defining the Programme

The techniques used in appraising proposals or new areas of expenditure vary depending on the scale of expenditure involved. The more complex techniques are explored in the ***Overview of Appraisal Methods and Techniques*** document of the Public Spending Code. Regardless of the scale or the technique used all appraisal involves a series of steps from objective definition and options exploration through to selection of the preferred option. This document sets out those standard appraisal steps. For expenditure involving less than €5m, following the standard appraisal steps should ensure a good appraisal.

Appraisal involves both the Sponsoring Agency and the Approving Authority being clear about the objectives of a proposal/intervention and consideration of all the options open to the Sponsoring Agency in meeting these objectives. All publicly funded projects or initiatives should be appraised carefully for:

- consistency with programme/policy objectives;
- value for money (taking account of deadweight[2] and displacement)[3]

Appraisal by the Sponsoring Agency should follow the general approach outlined below. Appraisal of all new current expenditure, large or small should be subjected to the general appraisal process described below.

The appraisal and planning stage will often overlap. In reality, it is very difficult to carry out a detailed appraisal unless some planning and/or initial design work has been done.

There are seven standard steps and these are expanded upon below.

(i) Define the objective

(ii) Explore options taking account of constraints

(iii) Quantify the costs of viable options and specify sources of funding

(iv) Analyse the main options

(v) Identify the risks associated with each viable option

(vi) Decide on a preferred option

(vii) Make a recommendation to the Approving Authority

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[2] Deadweight: The outcomes that would have occurred anyway, in the absence of the intervention.
[3] Displacement: Displacement occurs when the creation of new output in one area leads to the loss of output in another.

## 3.1 Define the Objective

Define clearly the objective of the proposals i.e. what needs are to be met and what is the planned scale on which those needs will be met, measured as precisely as possible. This is a key step that does not always get the required attention. If the objective changes during the appraisal or planning process then all parts of the appraisal need to be reviewed.

<u>Needs and Objectives</u>

An objective is the explicit intended result of a particular programme or project, measured as precisely as possible. For example, there may be a need to improve traffic flow on a road. To state the objective of works on that road as being “to reduce average journey times” would be unsatisfactory since it would not provide a basis for judging whether investment proposed to improve the roads would produce sufficient benefit. Something more explicit is needed. “To reduce average journey times between Town A and Town B by X percent by the year 2020” is a precise objective. It assists in addressing such questions as what are the various ways in which this objective can be reached; what costs and what results can be expected from each alternative course of action; and are the benefits sufficient to justify the costs.

Project and programme objectives should be expressed in terms of the benefits they are expected to provide and those whom they are intended to benefit. For example, road building programmes are not ends in themselves, as they must be seen in the light of the needs of the economy as a whole, and of the target groups for which the programmes cater (for example, freight traffic, tourist traffic, commuters. etc.). There is a need for realism in stating objectives.

Where programmes have multiple objectives it is necessary to be clear about the relative importance of each and how this should be reflected in resource allocation and in the appraisal process. Objectives should be expressed in a way which will facilitate consideration and analysis of alternative ways of achieving them. They should not be so expressed as to point to only one solution. For example, population growth may put pressure on the schools in a particular area and an objective might be expressed as being “to build new schools in the area” to meet this pressure. The objective “to provide school places to meet population growth within the area” would provide a better basis for considering alternative ways of achieving this objective, such as the provision of new schools, the expansion of existing schools, on a permanent or temporary basis, or making better use of the existing stock of schools by provision of special transport (school bussing) arrangements.

New projects should only be undertaken where there is a clearly established public need for the projects or service provided; existing services should be reviewed to ensure that the kind of service provided is the kind of service required, and is on the appropriate scale. Costly and wasteful over-supply, and/or under-utilisation of resources should be avoided.

Identifying the most appropriate policy response to a “need” can be difficult. Every effort should be made to identify available research that will assist in identifying a problem properly and which may have looked at how different types of solutions work.

## 3.2 Explore Options and Constraints

- list the options i.e. realistic alternative ways in which the objective can be achieved; include the option of doing nothing, or consider whether an objective could be met by ways other than expenditure by the State;
- list the constraints;
- The output from this step should be a list of realistic options that meet the objective(s). If the objective cannot be met from the available options then the objective should be revisited.

**<u>Options & Constraints</u>**

<u>All</u> realistic ways of achieving stated objectives should be identified and examined critically when considering project options for the first time. This should be done with a completely open_mind, and should always include the option of ‘doing nothing’ or ‘doing the minimum’. Different scales of the same response should be included as separate options, where appropriate. There should be no presumption that public sector responses are the only ones available; options which involve, or rely totally on, the private sector should also be considered. The alternatives should be described in such a way that the essentials of each alternative, and the differences between them, are clear. Options on the appropriate procurement method should also be considered.

***Constraints***

There will invariably be constraints in reaching objectives. There will normally be resource constraints. There may be technical constraints; for instance, there may be only a limited number of ways in which a product can be made, or a service delivered. Constraints may also arise as a result of previous policy or investment decisions, but these may be amenable to change. Constraints must also be explored and fully taken account of, because they will limit the range of solutions which are feasible or acceptable. The following is a checklist of the kinds of constraint which typically should be considered in appraising a proposal:

- Financial

- Technological

- Legal/regulatory
- State Aids rules
- Environmental
- Physical inputs/raw material
- Availability of manpower and skills
- Time
- Administrative /managerial ability
- Distributional (e.g. between regions, income groups, etc.)
- Social
- Spatial policy
- Land use planning
- Co-operation required from other interests
- General policy considerations.

Considering the possible alternatives in the light of the constraints will usually lead to the conclusion that some of the alternatives are not feasible. Others may conflict with existing policies. Objectivity is important in considering options. There is a danger that the selection of options may be manipulated in order to make a case for a course of action which is already favoured. For example, options for which there is a very weak case may be put forward in order to make a poor option look good. If the poor option is the best available it should be considered alone on its own merits.

**(iii) Quantify the costs of viable options and specify sources of funding**

Costs of current programmes or capital grant schemes will largely depend on the amount per eligible individual and the expected take-up. Reliable estimation of take-up is key. The costs of current programmes or capital grant schemes can be more difficult to predict. Cash limits on schemes should be used to protect the exchequer from unexpected exposure. Projected administration costs should also be included and external sourcing and shared services must be considered for any new service that is to be introduced.

**(iv) Analyse the main options**

This step and the next step on the consideration of risk will lead to a recommendation on the preferred option. Different forms of analysis provide different kinds of information about investment proposals, and it is important to identify clearly, and to agree with the Approving Authority, which forms of analysis are appropriate. The chief criterion used in deciding on the appropriate forms of analysis is whether or not the project is to be operated on a commercial basis.

The costs of the possible options will have been determined in the previous step. Depending on the scale of the project the analysis of options may involve placing a monetary value on the benefits.

Types of analysis that may be used include:

- Multi-criteria analysis (MCA)
- Financial analysis
- Cost benefit analysis
- Cost effectiveness analysis
- Exchequer cash flow analysis

***Sensitivity Analysis:***
Sensitivity analysis involves evaluating proposals over a range of assumptions about key factors (e.g. prices, costs, interest rates on any borrowed funds, growth rates, demographic changes) and should always be undertaken. If an option yields acceptable results only with particular combinations of circumstances, and the results are very sensitive to variations in these circumstances, then it should probably not be undertaken. If the relative merits of options change with variations in the assumed values of variables, those values should be examined to see whether they can be made more reliable. It may be possible to attach probabilities to ranges of values, to help pick the best option.

## 3.3 Identify the risks

Identify the potential impact of adverse circumstances on each option, and draw up, if possible, a strategy for dealing with risks. Important aspects of an appraisal will necessarily be based on assumed future outcomes and events. Realistic assumptions must be made about future prices, costs, market growth, and other relevant factors. Appraisal reports should always clearly state their assumptions. Over optimism known as optimism bias should be avoided. Assumptions should be based on analysis of past performance, bad years as well as good and careful study of possible future developments. Realistic assumptions reduce, but cannot eliminate, the element of uncertainty in the decision-making process, and the risk that decisions made on the basis of the analyses may turn out to be wrong. Good project appraisal highlights the elements which are uncertain, so that the Sponsoring Agency and the Approving Authority are aware of the risks involved in proceeding, or not proceeding, with any proposal. Suitable strategies to minimise risk, and its consequences, should be put in place e.g. in project management organisation, review procedures, information flows, etc. An appropriate level of contingency should be built into the costings.

## 3.4 Decide on a preferred option

Decide on the preferred option, specify it and a clear and detailed time profile for actions, (including time for planning and decision making) and for expenditure. Excessively high quality and cost specifications should be avoided. A balance must be struck between specifications which are excessive relative to needs and low quality specifications which may generate short-term economies but which lead to greater costs in the long-run.

## 3.5 Make a recommendation to the Approving Authority

The Sponsoring Agency should recommend the preferred option – with reasons for its choice and an indication of its sensitivity to changes in key assumptions – for consideration and approval by the Approving Authority.

# 4 Appraisal and Scope

This section describes the scenarios where guidelines for current expenditure apply. These appraisal guidelines apply to the main activities involved in the appraisal stage of the programme/scheme lifecycle as summarised below:

1) Identify proposal
2) Preliminary appraisal
3) Detailed appraisal
4) Finalisation of business case
5) Planning and design
6) Pilot Implementation

Some of the elements of the appraisal activities necessarily overlap with the planning and design stage (e.g. piloting). Further detail on the stages is set out in Figure 1 of Section 5.6.

Departments and agencies will be required to appraise the options for new current expenditure proposals before a determination is made that the proposal is approved in principle and should move on to the planning stage.

The obligations and guidance for current expenditure appraisal apply to proposals which involve a total budget of at least €20m or more for the duration of the programme and an annual expenditure of at least €5m. Some indicative examples of the scope of current spending proposals covered by these obligations are set out in sections 3.6 to 3.11.

## 4.1 Preliminary Appraisal

The preliminary appraisal aims to establish whether, at face value, a sufficient case exists for considering a proposal in more depth. It leads to a recommendation on whether or not to proceed to the detailed appraisal stage which can often be a costly exercise.

For proposals costing more than €5m, a preliminary appraisal should be undertaken by the Sponsoring Agency. It involves an initial specification of the nature and objectives of the proposal and of relevant background circumstances (economic, social, legal, etc.). The reasons why it is thought that public resources should be committed should be set out, having regard to what the private sector is doing or might be willing to do, independently or with State participation or encouragement.

A preliminary appraisal should include a clear statement of the needs which a proposal is designed to meet and the degree to which it would aim to meet them. It should identify all realistic options, including the option of doing nothing and, where possible, quantify the key elements of all options. It should contain a preliminary assessment of the costs (particularly financial costs) and benefits of all options.

On the basis of the preliminary appraisal, the Sponsoring Agency should decide whether formulating and assessing a detailed appraisal would be worthwhile or whether to drop the proposal. A recommendation to undertake a detailed appraisal should state the terms of reference of that appraisal. If significant staff resources or other costs would be involved in a detailed appraisal, the prior approval of the relevant Approving Authority should be sought.

## 4.2 Detailed Appraisal

The detailed appraisal stage aims to provide a basis for a decision on whether to drop a proposal or to approve it in principle. It involves the clarification of objectives, exploration of options, quantification of costs and a method of selecting the best solution from competing options. See the ***Overview of Appraisal Methods and Techniques*** document for further details on carrying out a detailed appraisal.

## 4.3 Planning /Design

Planning/Design starts with the Approval in Principle from the Appraisal stage (although some elements of planning/design may need to be completed to fully inform the appraisal). No commitment to finance a programme should be made until this stage is completed and a decision taken on whether to proceed is taken. This stage involves detailed planning and costing of the programme. The latter end of this stage may involve procurement and lead to the evaluation of tenders and an assessment of whether the best proposal received meets the requirements and is within the approvals required.

## 4.4 Implementation

This stage may, if an external provider is involved, begin with contract placement. Management, Monitoring, Supervision and Control are key terms that apply to this stage. The implementation of current expenditure programmes could extend over many years or even decades. In the case of current expenditure, evaluation will also play an important role. Both continuous evaluation using pre-determined performance indicators and more formal evaluations will be required to ensure that programmes are operating efficiently, are achieving the outcomes as planned and are serving needs that remain a priority. Documents in the Public Spending Code that are specifically relevant to the stage include:

## 4.5 Project Completion Reports or Post Implementation Review

Project Completion Reports (previously called Post Project Reviews[4]) are more relevant to capital expenditure. Current expenditure is likely to be reviewed during what is typically a more extended implementation period, but, reviews post-implementation may also be relevant.

## 4.6 New grant/subsidy schemes

It may be proposed to introduce a new grant scheme[5] or subsidy to achieve specific objectives for particular sectors of the economy or to promote social development. Grant schemes may be provided by Government Departments or Agencies and typically include grants to the agricultural, arts, energy, sports and enterprise sectors. Grants are also paid to third sector or voluntary bodies to achieve a range of social objectives.

Some examples of new grant schemes launched in recent years include:

- Suckler Welfare Scheme (Department of Agriculture, Food and the Marine)
- Wage Subsidy Scheme (Dept of Employment and Social Protection)
- Language Support Schemes (Department of Culture, Heritage and the Gaeltacht)

The appraisal obligations for current expenditure apply to new grant schemes introduced across all Government Departments and Agencies.

## 4.7 Extension, renewal or re-orientation of existing schemes

In some cases, existing spending schemes may terminate because schemes are time-bound or because scheduled payments to beneficiaries have finished. It is common for Departments and Agencies to develop proposals to either extend schemes or develop successor schemes with

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[4] For further information on Post Project Reviews please see Department of Public Expenditure and Reform, Circular 06/2018 available here.

[5] For further information on management of and accountability for grants from Exchequer funds please see Department of Public Expenditure and Reform, Circular 13/2014 available here.

similar objectives. In both these instances, the appraisal obligations for current expenditure are deemed to apply.

The appraisal obligations apply even if the change to the scheme does not involve any significant additional spending relative to the pre-existing scheme i.e. a rigorous appraisal of the entire scheme must be carried out as if it were being implemented for the first time. An evaluation of an existing scheme (whether by way of VFM & Policy Review (VFMPR) or Focussed Policy Assessment (FPA) ) may also act as valuable inputs to this appraisal as well as any other evidence based policy outputs.

## 4.8 New delivery mechanisms for existing services

New spending proposals may also involve a major change in delivery mechanisms to achieve more cost-effective delivery of the same objectives for a programme. For example, a buy vs. lease decision to address housing objectives could involve the design of new mechanisms to meet housing needs for eligible claimants but the long term objectives for the intervention may not change. Another example could involve a change in the administration of services such as individualised budgeting instead of block grant allocation for social care programmes. There are also instances where public services or administrative functions could be delivered using a shared service model or external sourcing. In these cases, there should also be a strong focus on a financial analysis and an Exchequer cashflow analysis including, in particular, an assessment of administrative savings.

## 4.9 New public services

Merit goods such as healthcare, social and educational services may be introduced to achieve Programme for Government objectives. These are often delivered by professional frontline staff. These services are also subject to the appraisal requirements for current expenditure. Quantifying the targeted outputs to be delivered and designing appropriate measures of outcomes are important tasks to be addressed in the appraisal of these services.

When considering the delivery mechanism for all new services the option of a shared services model or external sourcing must be considered.

## 4.10 New State bodies

The creation of a new agency or public body also requires adherence to the appraisal obligations for current expenditure. This also applies to proposed amalgamations of existing public bodies. In this case, an important element of the appraisal efforts should be the Exchequer cash flow analysis or financial analysis which illustrates the potential savings from amalgamations.

## 4.11 National/cross sectoral policy programmes and frameworks

Broad policy frameworks or cross sectoral policy initiatives may be formulated by lead Departments e.g. the Framework for Sustainable Development. These strategic documents generally set out broad principles and aims for a given policy area(s). However, inclusion of measures at a strategic level in these frameworks does not obviate the requirement for proper appraisal of specific current spending proposals arising from high level policy aims. The Department proposing specific measures should apply the Public Spending Code appraisal requirements, as approval of broad policy frameworks does not confer automatic approval of the specific actions, schemes or programmes which result from these frameworks.

In general, the obligations for appraising new current expenditure proposals do not apply automatically to the broad range of existing current expenditure schemes i.e. it is not intended that all existing programmes must be appraised each year as this would be highly resource-intensive and the VFMPR/FPA arrangements set out in the Public Spending Code:*Value for Money Review and Focused Policy Assessment Guidelines, January 2018, (available here)* apply instead to ongoing expenditure. Similarly, it is not intended that these arrangements for appraisal of new current expenditure apply to routine administrative budgets already in place as the focus is on new programme expenditure. However, as pointed out at section 3.2 above, any proposed extension, renewal or re-orientation of existing schemes should be informed by expenditure appraisals.

If it is uncertain as to whether or not the obligations for appraising current expenditure apply to a spending proposal, line Departments should consult the relevant vote section in D/PER. In general, the approach should be taken that even if there is some doubt as to whether expenditure is new or not, it is more than likely that the area of spend would benefit from appraisal and evaluation.

# 5 Obligations/Rules

The specific obligations for current spending appraisals are set out in the following sections.

## 5.1 Business Case

Line Departments are required to submit a Business Case (see Appendices for overview guidance on the contents of a Business Case) for current expenditure proposals with total expenditure over the duration of the programme/scheme of at least €20m and a minimum annual expenditure of €5m to the relevant Vote section in D/PER. The economic and financial appraisals are key components of the Business Case document.

Re-submission will generally be required by the Vote section in any case where an appraisal requires further work and the Business Case document will required to be developed through as many iterations as are necessary to address the relevant appraisal issues.

It is important that preparation of Business Cases begin at early stage to be consistent with budgetary timetables. Ideally, work on a new spending proposal should commence 9 to 10 months prior to the core period of the estimates cycle i.e. a business case for a spending proposal intended to begin in 2021 should be initiated in quarter 4 2019.

Programmes costing between €0.5m and €5m should be subject to a single appraisal incorporating elements of a preliminary and detailed appraisal. The scale of appraisal should be commensurate with the level of expenditure proposed.

A multi criteria analysis should be carried out at a minimum for new current expenditure proposals between €5m and €20m.

For new current spending proposals involving total expenditure of at least €20m over the proposed duration of the programme and a minimum annual expenditure of €5m a detailed Business Case incorporating a financial and economic appraisal is required and should be submitted for consideration to the relevant Vote section in D/PER.

## 5.2 Sunset Clauses

The sunset clause is the specification of a fixed date by which spending on the programme will terminate, unless the value for money of the programme can be demonstrated on foot of a rigorous review.

All new proposals should contain specific dates for the application of sunset clauses.

Even for schemes where spending is expected to continue for a significant period of time (e.g. merit goods involving human services), a sunset clause should still be applied to facilitate a review of the merits of the scheme taking into account effectiveness to date and changes in the external environment. Sunset clauses are of particular importance for new grant schemes and new agencies.

## 5.3 Cash limits for demand led spending proposals

In keeping with the multi annual expenditure framework reforms any new demand-led spending proposals should incorporate strict cash limits[6].

This is so that unexpected or unanticipated rises in demand do not automatically pre-empt other uses for scarce resources, whether in that Department/Agency or elsewhere. Cash limits are also a necessary feature of modern expenditure management in the context of fixed multi-annual expenditure ceilings in each departmental area.

If eligibility or qualifying criteria is the mechanism used for selection then the scheme should have a cash or other volume limit. A queuing system may be appropriate to determine the distribution of the fixed allocation among competing applicants. In general, commitments should be managed to avoid the risk of incurring expenditure that is significantly in excess of what is intended or budgeted.

The cash limits for demand led spending proposals do not apply to some social protection schemes where expenditure is driven by demographics or macro-economic issues and where competing applicants is not appropriate e.g. unemployment related payments.

## 5.4 Evaluation proofing

New spending proposals proposed in Business Cases should include a detailed plan for evaluation and monitoring. The plan should specify the data to be collected and the methods for gathering the data. It should also include the following:

- Articulation of the Logic Path Model which outlines the contribution of all relevant factors to the objective of the intervention and sets out the linkages between objectives, inputs, activities, outputs and outcomes.
- Specific measures to set up systematic data collection and data collection streams to

[6] For further information see Public Financial Procedures, Section C3, paragraph 10 'Cash-limited Grant Schemes' and Department of Public Expenditure & Reform Circular 13/2014, Section 4 'Management of Grant Funding'.

support reporting of performance indicators for monitoring, performance budgeting[7] purposes and evaluation (VFM's and FPA's).

- Specific evaluation techniques proposed to track outcomes including plans regarding the design of control/comparison groups where feasible (i.e. experimental evaluations) e.g. surveys, focus groups, statistical analyses, longitudinal studies, phased introduction, before and after studies.

- Schedule of pilot studies and evaluations as well as an identification of who will carry these out.

The feasibility of assessing outcomes can vary from programme to programme and monetising outcomes can be difficult. However, at a minimum, it should be possible to quantify the types of outcomes targeted.

## 5.5 Pilot exercises

In principle and as general rule, no new programme / scheme can be introduced without a pilot.

Final approval for full implementation of a scheme should not be granted until the pilot has been completed, formally evaluated and submitted to the relevant Vote section in Department of Public Expenditure & Reform.

The piloting exercise will enable testing of different variants of the policy proposal, will highlight potential drawbacks and generate data about outcomes. However, pilot schemes may not be feasible for each new spending proposal and exceptions to this rule may be considered where issues of equity, feasibility or proportionality of expenditure arise.

The Business Case should include a section on piloting and in this section, the Sponsoring Agency would set out the planned arrangements for piloting or provide a justification as to why piloting is not feasible.

## 5.6 Approvals

Figure 1 shows the main stages in the appraisal process for current expenditure proposals, illustrates when approval by the Approving Authority is typically required and also when the appraisal should be revised in light of new information or conditions attached to approvals and assessments. The main triggers for a review/revision of the appraisal are when:

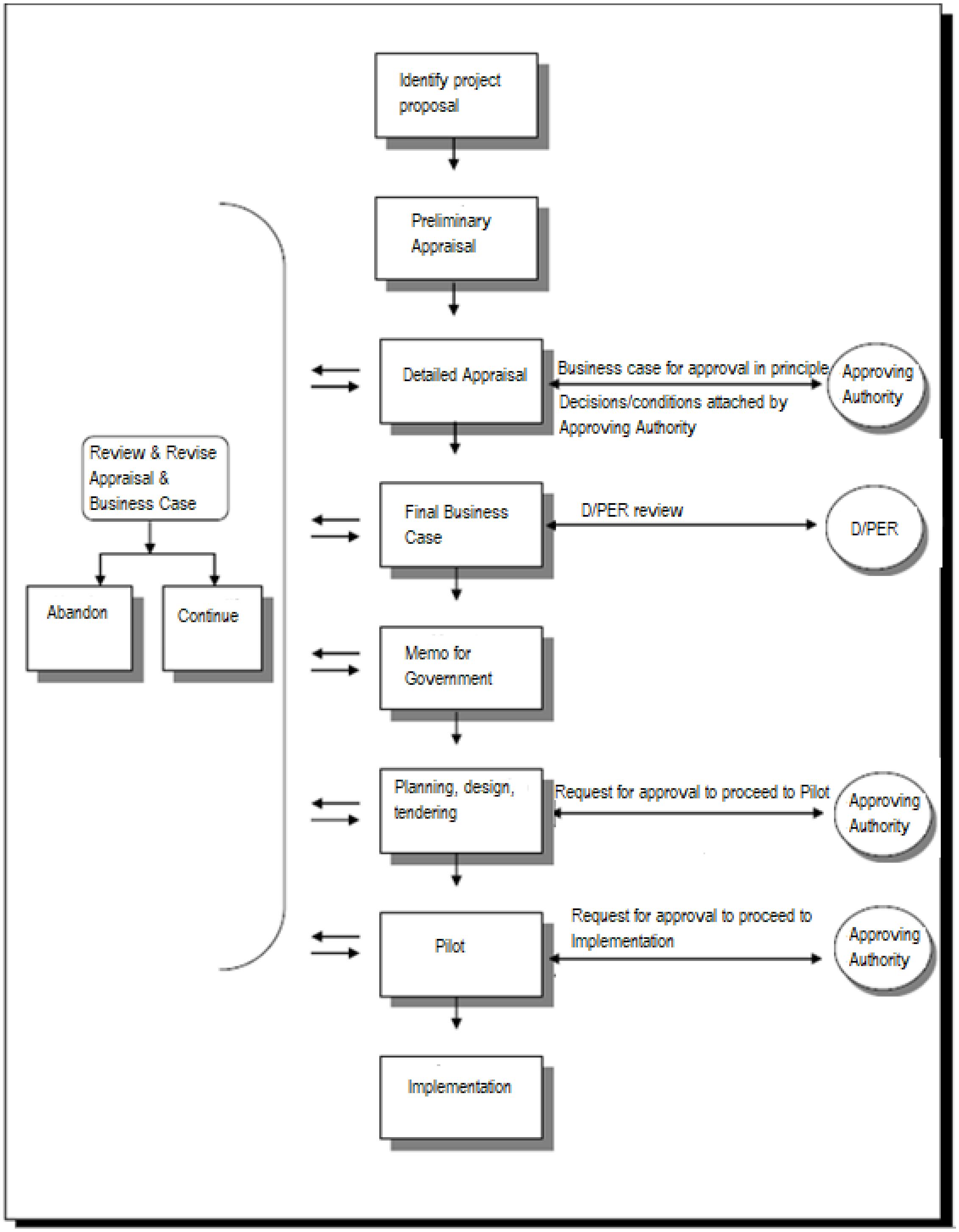
[7] Performance budgeting information is set out in the Revised Estimates for Public Services volume published annually by the Department of Public Expenditure and Reform.

- The Approving Authority approves the proposal in principle and includes conditions or changes in scope. Approval in principle is a decision given by the Approving Authority to a Sponsoring Agency at the end of the appraisal stage.
- The Department of Public Expenditure and Reform provides feedback on technical aspects of the appraisal.
- Changes arise as a result of a Government decision.
- Additional and more detailed information is gathered during planning and design.
- More detailed appraisal information emerges from the piloting process.

In practice, appraisal is an iterative process with the analysis undergoing continuous updating as new information emerges.

For a current spending proposal, there may not always be a tendering requirement as a scheme or programme may be delivered using internal resources only. This does not obviate the need for a revision of the appraisal and seeking approval based on up to date planning and design information at key stages of the decision cycle.

**Figure 1. Workflow for proposals with total budget of at least €20m and annual expenditure of at least €5m.**



# 6 Key Success Factors for high quality appraisal

While it can be resource intensive to carry out a rigorous appraisal, a properly conducted appraisal will ensure better decision making and greater allocative efficiency. This section outlines some high level success factors for carrying out a robust appraisal. The resources and practical guidance in relation to appraisal on the Public Spending Code website will be subject to ongoing development in line with the requirements of users.

## 6.1 Key components of the appraisal

There will be significant overlap between the appraisal and planning/design stages, however a certain amount of planning/design information will be required to carry out a proper appraisal in the first instance e.g. eligibility conditions and related demand.

The appraisal should incorporate an appraisal of the merits of the proposal (i.e. an economic appraisal such as a CBA) and also a separate financial analysis.

In general, the Business Case should incorporate both economic and financial appraisal. The economic appraisal (e.g. CBA or CEA) should be presented to demonstrate the merits of the scheme. As part of the overall appraisal, a separate financial appraisal should also be carried out. In most cases, the financial flows will be included in the economic appraisal. The financial appraisal will generally also incorporate an Exchequer cashflow analysis, a note on budgetary impact (i.e. consistency with multi annual expenditure ceilings) and a note on the sources of funds.

In particular circumstances, economic appraisal may be less relevant for certain types of spending proposals where the costs and benefits relate solely to elements of the Exchequer. This is the case where the proposal involves a redesign of a scheme/programme to achieve the same objective but at a lower cost to the Exchequer, an agency amalgamation which aims to generate efficiencies, a shared services decision or an external sourcing decision. Where an economic appraisal has not been carried out, the justification for this decision must be clearly set out in the Business Case.

## 6.2 Critical Success Factors for Current expenditure appraisal

***Objectives***

- Proposals should pay particular attention to the specific articulation of quantifiable objectives.
- Due account should be taken of other Government programmes with similar objectives to avoid duplication and to ensure a whole of Government approach.
- The team involved in compiling the appraisal should complete the logic path model to illustrate the links between inputs, activities, outputs, results and impacts.
- Appraisals should pay particular attention to the intended clients of schemes, relevant demographic characteristics (location, income, household composition etc.) and the predicted level of take up.
- Likely demand should be linked to anticipated funding levels and eligibility considerations.
- Demand estimation should be based on empirical research.
- Appraisals should clearly consider the impacts (costs etc.) on other Departments arising from spending proposals. Any potential overlaps or duplication with other schemes/tax expenditures should be identified.
- Distributional/equity concerns i.e. is the programme/scheme targeted at those with most need.

***Options appraisal***

- Appraisal of spending proposals should incorporate a detailed options appraisal to ensure decisions are fully informed. Realistic options can include operational implementation options, private sector alternatives, varying scale solutions or alternative types of economic intervention (subsidies, taxes, regulations etc.). The do-nothing or do-minimum options should always be considered.
- For new services external sourcing and shared services must be considered as one of the possible delivery mechanisms.
- The costs and benefits of each option should be appraised and not just the favoured option.

***Quantification of costs and benefits***

- Detailed research should be carried out in order to quantify the costs and benefits of the spending proposal under consideration using primary sources where possible. This is subject to the principle of proportionality.

- Appraisals should incorporate deadweight (e.g. eligibility conditions, rates of subsidy/grant and duration of programmes/schemes), displacement and additionality issues. Evaluation methods should be designed to ensure issues can be measured in future evaluations.

- Include opportunity cost of internal staff re-assigned to administer and manage new schemes.

- Cost recovery issues and/or financial contributions from programme participants (these should feature in the financial analysis).

- The pattern and timing of programme/scheme take up is critical for planning/design purposes, particularly given the importance of adhering to multi annual spending ceilings.

- In the event that private, community or third sector organisations are involved in programme delivery any supplementary guidance for this sector should be taken into account.

***Reporting***

- The final iteration of the business case, including the appraisal, should be completed before piloting and implementation.

## 6.3 Analytical Techniques

The Business Case for new current spending proposals should include a financial and economic appraisal. The key appraisal techniques which should be applied include:

- CBA
- Exchequer cashflow analysis
- Multi criteria analysis (MCA)

More detail on the specific application of these techniques are set out in the document Overview of Appraisal Methods and Techniques. CBA is the main economic appraisal technique required by the Public Spending Code. In circumstances, where CBA is not appropriate due to the difficulty in monetising outcomes, CEA may be considered.

Given that the outcomes of some current spending proposals may be difficult to monetise, MCA can also be an additional, useful tool to rank competing options according to different criteria. This does not mean that no attempt should be made to monetise outcomes but targeted outcomes can also be expressed in performance indicator terms and the expected effectiveness of options can be ranked accordingly. Examples of such outcome measures include:

- Unit cost per job created (enterprise sector)
- State subsidy per subscriber (national broadband scheme)
- Annual energy savings over baseline levels (energy schemes)

If all outcomes cannot be fully monetised, the qualitative assessment should always be carried out in a structured way.

## 6.4 Revising the appraisal

Unlike a capital project, tendering may not always play a significant role in the delivery of many current expenditure programmes/schemes. This does not detract from the requirement to revise the CBA at key decision points. The appraisal for a current expenditure programme/scheme should be reviewed and potentially revised at key decision points.

Appraisals should always be revised if the scope of the proposal changes or there is a significant lapse in time between the initial appraisal and the approval decision.

## 6.5 Practical steps to ensure a high quality appraisal

In order to carry out a successful appraisal, there should be a systematic approach to generate the analytical outputs required. The steps which should be taken to ensure a high quality appraisal can be summarised as follows:

**1. Planning**

- Check PS Code guidance
- Assign sufficient resources
- Devise methodology and data required
- Consult local IGEES

**2. Gather evidence**

- Use previous evaluations
- Primary data gathering
- Empirical research
- Substantiate costs and benefits

**3. Consult**

- Use the Evaluation network
- Use internal skilled resources to challenge analysis
- Check with local IGEES
- Peer review

**4. Iterate**

- Rework analysis to test for risk and accuracy.
- Ongoing improvement
- Update for new data

# 7 Procurement

The Office of Government Procurement has responsibility for procurement policy and procedures, sourcing systems and data analytics.

The Office of Government Procurement(OGP) commenced sourcing operations in 2014 and, together with Health, Local Government, Education and Defence, has responsibility for sourcing 16 categories of goods and services on behalf of the public service.

The OGP has established a dedicated Customer Service Team to provide a high quality professional service to the OGP's public service clients and to suppliers. The Team, which includes Key Account Managers and Helpdesk Agents, provides proactive and reactive information, assistance and support to the OGP customers.

For procurement related guidance and advice please contact the Office of Government Procurement at www.ogp.ie.

# 8 Implementation

The implementation stage of a project begins once final approval for the award of a contract has been secured, Current Expenditure programmes enter this stage once final approval is secured. The critical tasks at this stage are management and monitoring to ensure that what is planned is executed satisfactorily, within budget, to standard and on time.

Implementation is the responsibility of the Sponsoring Agency while the Approving Authority must be satisfied that the Sponsoring Agency delivers what has been approved. Where the Government is the Approving Authority, the responsibility for ensuring delivery and for the management and monitoring functions in the implementation stage will rest with the relevant line Department (the Department which presented the proposal to Government).

The Approving Authority should satisfy itself that the Sponsoring Agency has systems in place and system checks in place to ensure that the project is delivered as per the contract, approved project specification and within the approved budget and in compliance with these guidelines.

Actions or responsibilities at the Implementation Stage can vary depending on the scale of expenditure involved.

All require:

a) assigned responsibility for delivery

b) an appropriate structure to monitor and manage the implementation phase

c) regular reporting

d) a means of measuring if the current expenditure intervention is delivering on its expectations

Sponsoring Agencies responsible for implementation together with the Approving Authority must decide on the best approach for each individual situation taking account of the guidance in this document.

**Note:** The monitoring, management, evaluation or review of discrete areas of expenditure should incorporate the relevant administrative expenditure associated.

## 8.1 Assigned Responsibility for Delivery

Responsibility for current expenditure programmes should be assigned within Departments and Agencies.

## 8.2 Appropriate Structure for monitoring and management

All expenditure has to be actively managed. This will involve monitoring against plans and expectations, monitoring and assessing changes in the broader environment that may impact on the underlying need and making decisions on adjustments or even termination.

Current expenditure programmes need formal structured arrangements to ensure that there is systematic coordinated monitoring and management of programmes. Responsibility for putting these structures in place may primarily rest with the Approving Authority or the Sponsoring Agency depending on the nature and scale of the expenditure. These structures may include a programme co-coordinator to coordinate implementation of the programme and a monitoring committee to monitor and review progress. Where the programme is a cross-cutting programme the monitoring committee will be representative of relevant Government Departments, implementing public bodies and sectoral interests.

## 8.3 Regular Reporting

Monitoring of all types of expenditure is required to ensure that milestones are being met and expenditure is within budget. Regular reports should be submitted to the Project Board or other structure as discussed above. If adverse developments occur such as potential cost overruns or delays the progress report should include recommendations to address the situation, including where warranted the option of project/scheme termination.

For projects costing over €20m a separate progress report for each project must be submitted to the Department's MAC for Departmental projects and to Management and/or the Board for Agency projects and then to the relevant Minister on a quarterly basis. These reports may be subject to audit by the Department of Public Expenditure & Reform.

## 8.4 Performance Indicators

Performance indicators should be developed at the outset as well as a means of gathering the data to support performance indicator measurement. These performance indicators will then be used as part of the monitoring and management of the Implementation Stage for current expenditure programmes. There may be schemes or programmes underway that do not have suitable performance indicators. If this is so then suitable performance indicators should be developed as soon as possible.

## 8.5 Adverse Development or Changes in Circumstances

Regular management reports should be prepared by the Sponsoring Agency covering all significant developments relating to the programme and its costs. If adverse developments occur, including unforeseen cost increases, which call into question the desirability or viability of the programme, the Sponsoring Agency should submit a report at the earliest possible moment to the Approving Authority, detailing the necessary measures proposed to rectify the situation.

Where, despite these measures, increased costs above those already approved are likely to arise, the approval of the Approving Authority for the extra expenditure should be obtained before any commitment is made to accept cost increases. Any application for such approval should outline the reasons for the excess, along with a detailed explanation of why it was not possible to take appropriate measures to offset the increased cost. The viability of the programme, given the changed circumstances, should also be reported on.

If a programme is going badly wrong, there should be a willingness to terminate it before completion. Action of this kind can be justified if the cost of the programme escalates above earlier estimates or if the benefits expected from it are not likely to be realised. An attitude that, once work on a programme commences, it must be completed regardless of changed circumstances, is to be avoided. Before making a final decision to terminate a programme that is not going according to plan, the costs of termination (for example, payments that might have to be paid by way of commitments entered into etc.) should be ascertained and made known to the appropriate authorities.

# 9 Periodic Evaluation/Post Programme Review

All expenditure is subject to ongoing monitoring using appropriate performance indicators. Ongoing analysis of performance indicators should give management a good idea of whether an investment or intervention is yielding the expected outputs and outcomes.

The importance of active management, regular reporting and monitoring and the use of performance indicators is outlined earlier in this document. Active management allows a sponsoring agency to assess whether a current expenditure programme is on schedule and within budget. For current expenditure programmes a regular analysis of performance indicators should give the sponsoring agency and approving authority a good idea of whether an intervention is achieving its objectives or not.

In addition to the active management and regular analysis of performance indicators there is a need for periodic evaluations of areas of expenditure. This requirement is there because:

- regular monitoring of performance indicators needs to be supplemented with a more in-depth study to assess efficiency and/or effectiveness
- an independent review of efficiency, effectiveness and continued relevance is sometimes needed
- the outcomes of the intervention will not occur for some time and a different approach to measuring effectiveness is required
- the scale of the investment/intervention justifies an in-depth evaluation

The aim of a review of a programme is to determine whether:

- the basis on which a programme was undertaken proved correct;

- the expected benefits and outcomes materialised;

- the planned outcomes were the appropriate responses to actual public needs;

- the appraisal and management procedures adopted were satisfactory;

- conclusions can be drawn which are applicable to other programmes or to associated policies.

Post-programme reviews for current expenditure programmes may be needed where evaluations were not undertaken when the schemes were active or if the benefits would not be apparent for some time. Post-implementation reviews reveal if the type of intervention chosen is effective and efficient and informs future decision making.

The Value for Money and Policy Review process aims to subject some significant portion of an organization's expenditure to an in-depth review every year. There are also more focused reviews that may not examine all of the evaluation questions posed by a VFMPR. Further information on the VFMPR process can be found in the Public Spending Code: *Value for Money Review and Focused Policy Assessment Guidelines*, *January 2018*, available here.

**Note:** The monitoring, management, evaluation or review of discrete areas of expenditure should incorporate the relevant administrative expenditure associated.

## 9.1 Evaluations and the Annual Estimates and Budgetary Timetable

Whether evaluations are undertaken as part of the VFMPR initiative, with a full set of terms of references or focused on a targeted subset of evaluation questions e.g. effectiveness or efficiency they should be completed within a reasonable period (6-9mths for full set of terms of reference and much less for more focused evaluations). They should be scheduled so that their findings are available for the forthcoming budgetary cycle.

It is important therefore that Departments target the completion of their evaluations for the Autumn of each year at the latest so that the findings can inform opinions and decisions, in Departments, in the Committees and in the Department of Public Expenditure and Reform at the earliest opportunity. Failure to adhere to this schedule seriously undermines the value of the evaluation work. To give Departments their best chance of meeting this timetable significant new evaluations should begin in the Autumn/early Winter.

**Additional Evaluation/Post-Project Review Requirements**

From time to time it may be apparent that while not mandatory, an area of expenditure would benefit from a more in-depth review based on the picture the performance indicators paint or maybe because the performance indicators are not as informative as originally thought.

**Communicating lessons learned**

As with all parts of the Public Spending Code any significant lessons should be translated into changes in the Sponsoring Agency's practices and communicated within the organization and to the approving authority so that it can apply any general lessons learned.

**Responsibility for Evaluation/Review**

It is the responsibility of the Sponsoring Agency to carry out the evaluations or post project reviews. Those conducting reviews and evaluations should not be the same people as conducted the appraisal or managed the implementation. VFM & Policy Reviews have specific requirements regarding Steering Committees and independent chairpersons.

# 10 Appendices

## 10.1 High Level Guidance on Business Cases

The Business Case is the formal submission presenting the spending proposal that Departments make internally to senior management as well as to the Department of Public Expenditure and Reform. It becomes the key document of record and integrates all the various elements required to support a decision on the merits of a proposal. The Business Case should incorporate the following key elements:

- Objectives
- Scope
- Feasibility
- Options Appraisal
    - Economic
    - Financial
    - Risk analysis
- Planning and design issues
- Evaluation plan
- Recommendation

The Business Case should be prepared by the Sponsoring Agency. It is important that there is input from staff resources with experience of economic analysis and evaluation to underpin the quality of analysis carried out.

While the Business Case will contain some planning and design information, it will not be possible to include all planning and design related details until the proposal has proceeded to this stage.

Nonetheless, a certain amount of planning and design information is required to carry out the appraisal. For example, the eligibility conditions and rate of subvention are important design considerations for a new grant scheme.

## 10.2 High Level Outline of Business Case Requirements

| Nr | Item | Detail |
|---|---|---|
| 1 | Objectives | ➢ Definition of the policy proposal and its objectives<br>➢ Economic rationale for the proposal<br>➢ Programme logic model showing linkages between inputs, outputs and outcomes |
| 2 | Scope | ➢ Duration of spending proposal (including identification of sunset clause)<br>➢ Departments affected<br>➢ Number of clients |
| 3 | Feasibility | ➢ Constraints<br>➢ Administrative feasibility<br>➢ Previous experience |
| 4 | Options Appraisal | |
| *4a* | *Economic appraisal* | ➢ Options appraisal (including justification of options)<br>➢ Core assumptions<br>➢ Decision criteria<br>➢ Limitations |
| *4b* | *Financial* | ➢ Exchequer cashflow analysis<br>➢ Affordability analysis (MTEF)<br>➢ Analysis of sources of funding |
| *4c* | *Risk analysis* | ➢ Identification of risks<br>➢ Sensitivity and scenario analysis<br>➢ Risk mitigation strategy |
| 5 | Planning and design issues | ➢ Scheme design i.e. eligibility, payment rates<br>➢ Administrative issues e.g. IT, staffing,<br>➢ Roles, responsibilities and reporting<br>➢ Project implementation plan<br>➢ Procurement issues e.g. outsourcing<br>➢ Cross cutting issues |
| 6 | Evaluation plan and proofing | Pilot arrangements<br>➢ Performance measurement framework<br>o Data collection streams<br>o Indicators<br>o Techniques to measure outcomes<br>➢ Proposed monitoring /evaluation arrangements<br>➢ Schedule of evaluations |

| | |
|---|---|
| 7 Recommendation | ➢ Key results from appraisals<br>➢ Qualitative issues |
| 8 Appendices | ➢ Assumptions, parameters, input values<br>➢ Detailed methodology |

# 11 Glossary of terms

### Accountable Person

The governing legislation establishing most State bodies makes the CEO of the State body accountable to the Committee of Public Accounts (PAC) of the Oireachtas. This is on the basis that the financial statements of the State body are audited by the Comptroller & Auditor General and laid before the Oireachtas in accordance with the provisions of the State bodies governing legislation.

### Accounting Officer

A senior official (normally the Secretary General) in each Department or Office who is specially and personally charged with signing the Appropriation Account and who is accountable for the propriety of the Department's expenditure, the accuracy of the account and for prudent and economical administration.

### Additionality

The project/programme outcomes above and beyond what would have happened anyway.

### Affordability

Affordability refers to the extent to which the budget is available to fund the proposed intervention in the context of competing and overall priorities.

### Appraisal

Appraisal is the analysis conducted before a spending proposal is approved. It usually refers to a financial, economic, and sensitivity analysis of options designed to inform the selection of the most efficient option to achieve the stated objectives and desired outcomes.

### Approval in Principle

Approval from the Approving Authority after consideration of the Preliminary Business Case for the proposal to move to Design, Planning & Procurement Strategy as part of the Final Business Case stage of the project lifecycle.

### Approving Authority

The Approving Authority has ultimate responsibility for the project or programme. It is responsible for granting approval for a project or programme to proceed under the management and oversight of another body. It assesses the proposal at the key decision gates in the project lifecycle. It is responsible for funding and ensuring the project or programme is delivered as approved.

### Behavioural bias

Research from psychology, economics and other disciplines showing that peoples' decisions are strongly influenced by mental shortcuts and habitual, often automatic, responses to their immediate environment. These shortcuts and habits allow people to interact more efficiently with their environment but, in some contexts, they can create 'biases' where people make decisions which they later regret – or which create problems for others or society in general. This has implications for policy, e.g. optimism bias where people overestimate the likelihood of positive events and underestimate the likelihood of negative events.

### Benchmarking

Benchmarking is a process of 'self-evaluation' - of comparing your processes and your performance against good practice or benchmarks in similar organisations.

### Benefits Realisation

The collective process of identifying benefits at the outset of a project and ensuring, through purposeful actions during implementation, that the benefits are realised and sustained once the project ends.

### Business Case

A business case may be defined as a document outlining how a give business need or problem is to be remedied. It will include an analysis of options, identification of costs, benefits, and risks, and propose a solution to the approving authority for approval to proceed with the programme.

### Capital Expenditure

Capital expenditure relates to the acquisition, construction or enhancement of significant fixed assets including land, buildings, and equipment that will be of use or benefit for more than one financial year.

### Contingency

Contingency is an integral part of the total estimated costs of a project. It is specific provision for unforeseeable elements of cost within the defined project scope.

### Cost Benefit Analysis (CBA)

An economic appraisal methodology used to assess whether or not the social and economic benefits associated with a project are greater than its social or economic costs. CBA attempts to put monetary values on as many of the project impacts (positive and negative) as possible.

### Cost Effectiveness Analysis (CEA)

An economic appraisal methodology used to compare the alternative approaches to delivering the same or similar policy outcomes. CEA is often undertaken when benefits associated with a proposal cannot be quantified.

### Counterfactual

An assessment of the likely developments which would occur in the absence of a policy intervention. A well-defined and supported counterfactual is required in order to assess the additionality of a project proposal.

### Current Expenditure

Current expenditure typically includes spending on salaries of public servants involved in delivering public services, non-pay costs such as materials (drugs, teaching materials etc.), administrative overheads, payments for services carried out by professionals etc.

### Deadweight

The outcomes that would have occurred anyway, in absence of the intervention.

### Detailed Project Brief

The Detailed Project Brief is the full and complete statement of the project expressed in output requirements. It defines all design requirements for a project including performance standards and quality thresholds. It is the benchmark for measuring the development of the project and later becomes the basis for the construction contract.

### Demand Analysis

An assessment of the forecast use of a new asset, defined against the backdrop of the quality and capacity of existing public infrastructure and informed by the main drivers of future demand including demographics.

### Discounted Cashflow Analysis

Discounted cash flow is a valuation method used to estimate the value of an investment based on its future cash flows.

### Discounting

Discounting allows benefits and costs that occur in different time periods to be compared by expressing their values in present terms.

### Displacement

Displacement occurs when the creation of new output in one area leads to the loss of output in another.

### Double Counting

Double counting occurs where a cost or benefit has been included more than once in the analysis.

### Economic Benefit: Cost Ratio (EBCR)

The ratio of economic benefits to economic costs calculated in a cost benefit analysis. If the benefit: cost ratio is greater than one, then the project has more benefits than costs. The formula used is: sum of present value of benefits divided by sum of present value of costs. The EBCR is a useful measure for ranking projects.

### Economic Net Present Value (ENPV)

The Economic Net Present Value is the sum of discounted cashflows over the appraisal period.

### Economic Payback Period (EPP)

The payback period refers to the amount of time it takes to recover the cost of an investment. The payback period is the length of time until an investment reaches a breakeven point.

### Economic Rate of Return (ERR)

The economic rate of return is the discount rate at which the cost and benefits of a project, discounted over its life, are equal.

### Evaluation

The process of systematically assessing an intervention (ex ante or ex post) to determine efficiency and effectiveness in achieving a stated objective.

### Financial Benefit Cost Ratio (FBCR)

A benefit-cost ratio (BCR) is an indicator used in financial analysis to show the relationship between the relative costs and benefits of a proposed project. A financial benefit cost ratio uses the costs and benefits calculated as part of the financial analysis.

### Financial Internal Rate of Return (FIRR)

The financial internal rate of return is the discount rate at which the cost and benefits of a project, discounted over its life, are equal. This refers to the costs and benefits calculated in the financial analysis.

### Financial Net Present Value (FNPV)

The Net Present Value is calculated by summing the total discounted financial benefits and subtracting the total discounted financial costs. The NPV can be compared to assess options.

### Focused Policy Assessment (FPA)

Focused Policy Assessment is an evaluation methodology designed to answer specific issues related to policy configuration and/or delivery. The lessons learned form a Focused Policy Assessment should be communicated within the Sponsoring Agency, Approving Authority and incorporated into sectoral and national guidance as appropriate.

### General Government

General Government is defined by Eurostat[8] as consisting of institutional units which are non-market producers whose output is intended for individual and collective consumption, and are financed by compulsory payments made by units belonging to other sectors, and institutional units principally engaged in the redistribution of national income and wealth. It consists of four subsectors – central government, state government, local government and social security funds.

### Implementation

Implementation is the process that turns strategies and plans into actions in order to accomplish strategic objectives and goals.

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[8] https://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:General_government_sector

### Key Performance Indicators (KPIs)

A Key Performance Indicator is a measurable value that demonstrates how effectively an intervention is achieving key objectives.

### Logic Path Model/ Programme Logic Model

Logic models map out the shape and logical linkages of a programme or project and provides a systematic and visual way to present and share understanding of the cause-effect relationships between inputs, activities, outputs and outcomes (results and impacts).

### Medium Term Exchequer Capital Envelopes

These are rolling multi-annual capital allocations which provide government departments and public bodies with greater certainty in regard to their medium term budget and enable them to improve planning and management of capital programmes and projects. The envelopes are determined by Government and set out the commitment of Exchequer capital allocations for each Ministerial Group of Votes for each of the years over the period of the envelope.

### Monte Carlo Analysis

Monte Carlo simulations are used to model the probability of different outcomes in a process that cannot easily be predicted due to the intervention of random variables. It is a technique used to understand the impact of risk and uncertainty in prediction and forecasting models.

### Multi Criteria Analysis (MCA)

An economic appraisal methodology used to compare a set of options. This method establishes preferences between project options by reference to an explicit set of criteria, weightings, and objectives. It is useful for comparing quantitative and qualitative costs and benefits.

### National Development Plan

The National Development Plan 2018-2027 sets out a strategic vision for Ireland’s public capital infrastructure priorities over 10 years and is aligned with the National Strategic Outcomes for Ireland’s spatial strategy contained in the National Planning Framework

### Non Voted Public Expenditure

Non-voted expenditure represents expenditure which the Oireachtas has declared by law is to be paid from the Central Fund without annual reference to the Dáil.

### Opportunity Cost

The value of a resource in its most productive alternative use.

### Optimism Bias

The tendency to underestimate adverse outcomes (such as cost overruns) and overestimate favourable outcomes (such as benefits attributable to projects and programmes).

### Pilot

The piloting exercise will enable testing of different variants of the policy proposal, will highlight potential drawbacks and generate data about outcomes. In principle and as general rule, no new current expenditure programme / scheme should be introduced without a pilot.

### Preliminary Appraisal

A Preliminary appraisal is required for proposals costing more than €5 million, a preliminary appraisal should be undertaken by the sponsoring agency. A preliminary appraisal should include a statement of the objectives which a proposal would aim to meet. It should contain a preliminary assessment of the costs (particularly financial costs) and benefits of all options. The preliminary appraisal aims to establish, at face value, if a sufficient cases exists for considering a proposal in more depth.

### Procurement Strategy

The method selected by a sponsoring agency to achieve its project and/or programme objectives, in a manner that maximises value for money whilst being consistent with EU and national law and regulations.  It is identified following a consideration of factors which should, at a minimum, include the commercial or contractual arrangements to be used to deliver the project and/or programme; the sponsoring agency's capacity and that of potential suppliers.

### Programme Logic Model/Logic Path Model

Logic models map out the shape and logical linkages of a programme or project and provides a systematic and visual way to present and share understanding of the cause-effect relationships between inputs, activities, outputs and outcomes (results and impacts).

### Project Execution Plan (PEP)

The Project Execution Plan shows the overall timescale for completions, the milestones for the design and construction elements of the project, how the project is to be implemented as well as the projected long term maintenance and major replacement requirements. The PEP is a live document and should address risk management.

### Project Lifecycle

The project lifecycle describes the stages a project goes through as it progresses from start to finish. A well-defined lifecycle brings order and structure to the project.

### Proportionality

The complexity of the appraisal or evaluation of a project or programme and the methods used will depend on the size and nature of the project or programme and should be proportionate to its scale. The resources to be spent on appraisal or evaluation should be commensurate with the likely range of cost, the nature of the project or programme and with the degree of complexity of the issues involved.

### Public Capital Programme

The planned capital investment programme for a given year of all government departments, local authorities, and state bodies.

### Public Financial Procedures

The Constitution, Legislation and Circulars provide the framework in which the financial information of Central Government is to be accounted for and reported on. The *Public Financial Procedures* ("the Blue Book") summarises many of the arrangements for public financial management.

### Public Private Partnership (PPP)

A structured arrangement between the public sector and a private sector organisation to secure an outcome delivering good value for money.

### Public Spending Code (PSC)

The Public Spending Code sets out the value for money requirements for the evaluation, planning, and management of public expenditure in Ireland.

### Reference Class Forecasting

Reference class forecasting is a methodology to estimate project costs which attempts to mitigate optimism bias. It assesses the outcome of a planned action based on actual outcomes in a reference class of similar interventions to that being forecast.

### Risk

The likelihood, measured by its probability that a particular event will occur.

### Risk Management Strategy

The Risk Management Strategy consists of a series of management actions designed to mitigate risks. The actions should be assigned to an action owner and have specific completion dates assigned for each management action.

### Sensitivity analysis

An analytical technique to assess the impact of changes in critical variables on the project outcomes.

### Sponsoring Agency

The Sponsoring Agency is responsible for proposing and implementing a project or programme. It has primary responsibility for evaluating, planning and managing public investment projects and engaging at the decision gates with the Approving Authority for approval to proceed to the next stage of the project lifecycle.

### State Body

State body as set out in the Code of Practice for the Governance of State Bodies[9].

### Sunset Clause

A sunset clause is the specification of a fixed date by which spending on a programme will terminate, unless the value for money of the programme can be demonstrated on foot of a rigorous review.

### Switching value

The required change in a given input to render the project NPV-neutral (or some other stated result).

[9] available here.

### Uncertainty

The situation when it is not possible to attach probabilities to the range of potential outcomes.

### Value for Money Review (VFMR)

Value for Money Reviews are evaluations of major spending programmes and/or policy areas. They examine the value for money of programmes and/or policy areas in terms of their rationale, economy/efficiency, effectiveness, impact and continued relevance. The lessons learned form a VFMR should be communicated within the Sponsoring Agency, Approving Authority and incorporated into sectoral and national guidance as appropriate.

### Virement

The use, with the approval of the Department of Public Expenditure and Reform, of savings on one or more subheads to meet excess expenditure on another subhead or subheads within the same Vote.

### Voted Expenditure

Voted expenditure refers to the ordinary services of Government Departments and Offices, both capital and non-capital, the money for which is voted by the Dáil on an annual basis. Expenditure is provided for under Votes, one or more covering the functions of each Department or Office.